HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Ottawa[1]

Canada Mortgage and Housing Corporation

Date Released: Fall 2008

New Home Market

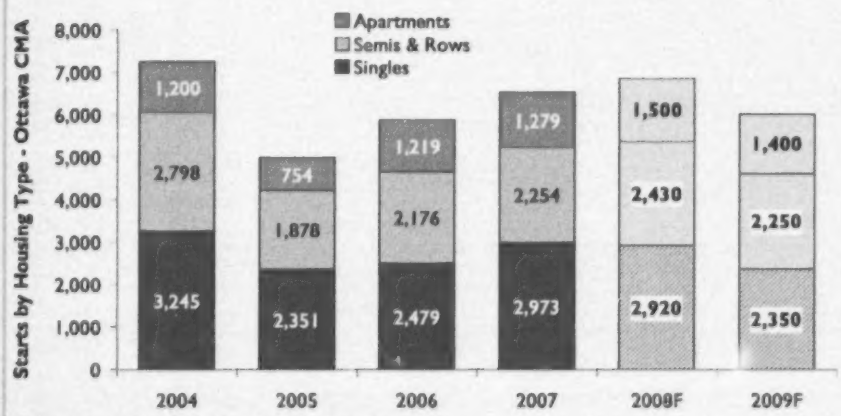
New Construction Set to Slow by 5.5 Per Cent

The new home market is well set to finish the year up by 5.3 per cent from 2007, with a total of 6,850 new starts. This healthy number of starts constitutes the third highest annual record in the past 20 years. Even as the fourth quarter activity slows down, 2008 will end on a strong note.

As Ottawa's economy reacts to the current slowdown, it will prove difficult to maintain such record levels of new construction. Much like in the resale market, the new housing market faced recently a turning point toward slower growth and 6,000 new properties are expected to be built in 2009, down 12 per cent from 2008.

Figure 1

New Construction Slowing to More Sustainable Levels



Source: Ottawa Real Estate Board, CMHC forecast

[1] Ontario part of Ottawa-Gatineau CMA

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The demographic trends in the next ten years are pointing towards slower housing demand numbers, which will run at an average of 5,300 new starts per year. New construction in the last years has been running above household formation as a result of replenishment of the existing stock.

Single-Detached Dwellings Trending Lower

While still strong, the single-detached segment went from representing almost 64 per cent of total starts in 1999 to accounting for just over 45 per cent in 2007. Converging to a projected long term starts shares trend of 40 per cent for single-detached and 60 per cent for other type of dwellings, they are expected to close 2008 with 2,920 new properties built, down only 1.8 per cent from last year. Single-detached starts will likely finish 2009 on a weaker note with 2,350 new units. The growth in price for a new single family home in 2009 will slow to reach $417,500 or a 1.2 per cent increase.

Construction Flourishing in the Outskirts

The top three urban neighborhoods where new construction has year-to-date been particularly active are Nepean, Cumberland, and Kanata, where townhome construction represented over 40 per cent of the total of new units and single-detached starts covered another 40 per cent. Of the total new single-detached dwellings built in the Ottawa CMA over 85 per cent broke ground outside the Greenbelt area.

As the Queen City's housing market grows, new construction of single family homes and townhomes will flourish largely in newer areas outside of the Greenbelt. The rapidly increasing numbers of settled immigrants prefer the more affordable dwellings located in the outskirts of the City, even if that means longer commuting times.

New townhome construction will add 2,200 new properties to the new home market, the third highest level in 30 years. there will be a decline in new townhome construction in 2009 to 2,050 units. Nonetheless, this type of dwelling will lead the growth in new construction in our Nation's Capital City.

High-Density Construction Will Be Favoured

Both economic and demographic trends have been supporting the growing popularity of apartments in Ottawa. On the one hand, the higher price of land at the City's Core will sustain greater intensification apartment building projects. On the other hand, the expanding pool of young professionals and retiring baby-boomers favours the convenience offered by owning or renting a condominium apartment. Responding to these factors, this year will close with higher levels of condominium construction located at or close to the Downtown Core.

The outlook for new construction of apartments looks very promising. By the end of 2008, new apartment starts will reach the second highest level since 1992 with 1,500 new units built. Looking forward into 2009, new apartment construction will close with 1,400 new dwellings.

Rental Market

Slowdown in Vacancy Rate in 2009

Although there is a high demand for Rental Apartment units not only by young adults and financially weaker households, but also by newly arrived immigrants, new rental construction has accounted for less than 3 per cent of the total construction in the last five years.

As Ottawa receives on average around 6,000 new immigrants every year, strong demand for more rental units combined with a slowdown in inventory build-up will lead to a tighter Rental Market. It should be noted that condominium apartments do represent a source of rental supply as investors lease up their units. CMHC's condo rental survey revealed almost 20 per cent of the almost 20,000 condominium apartment's universe was rented out in 2007. In addition, the Secondary Rental Market survey conducted last year revealed a significant 4 per cent of the total population of Ottawa renting a dwelling as a secondary household.

Nevertheless, in the next years Ottawa's Rental Market will be facing additional demand. Home price gains will deter first time home buyers from jumping into the homeownership market, pushing the vacancy rate further down to 1.9 per cent in 2008

and to 1.6 per cent for 2009. Even if there was a higher amount of new rental construction in the near future, it would take it a couple of years to enter the Rental Market.

The average rent for a two bedroom apartment will sit at $980 per month in 2008, up 2 per cent from last year, and will finally reach the $1,000 mark in 2009. Nonetheless, rental affordability has remained healthy and improving since 2006, supporting future rental demand.

Resale Market

Resale Market Trending Towards Balance

After a slow first quarter, impressive resale activity this year in the Ottawa CMA offers further evidence of the local economy's remarkable resilience to the wider economic uncertainty. Recent activity is nonetheless leading Ottawa's housing market towards slower, calmer waters in what constitutes a clear shift from recent growth trends to more sustainable levels.

The total number of resale transactions will retreat by 5 per cent in 2008 to finish with 14,000 transactions. Such performance is still healthy by historical standards representing the second highest number of sales on record and exceeding by 4.8 per cent the average annual sales levels achieved since the turn of the century.

As Ottawa's resale market adjusts to the current economic slowdown, the number of transactions in 2009 is anticipated to step back yet again but by a milder 4 per cent to a total of 13,400, thus gradually stabilizing sales activity along a more sustainable long term trend.

Market Trending Towards Balanced Territory

The supply side of the Resale Market, new Listings, rebounded strongly during the second quarter of 2008 and is expected to close the year at a 4 per cent year-over-year increase. Although a robust increase, resale volume will increase at a healthier pace this year; therefore, sustaining the existing home market in sellers' territory.

Looking forward into 2009, it is anticipated that the Capital City's resale market will trend towards a Balanced Territory. With the slight softening of demand and new listings remaining at a healthy level, the Sales to New Listings ratio will fall below the 55 per cent mark. Consequently, resale market conditions will support price increases at approximately the inflation rate.

Average Price Growth Rising Moderately

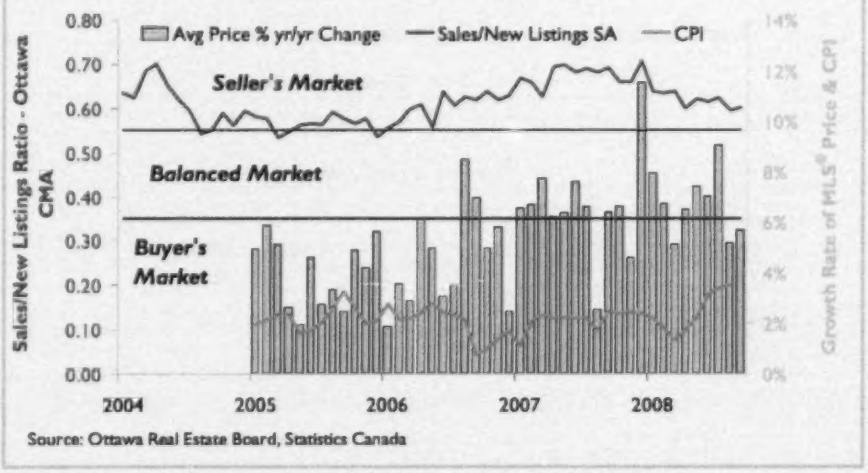
Consistent with a slower progression of average home prices, the average MLS price for residential properties in Ottawa will close 2008 at $288,500, or 5.7 per cent higher than last year. While the Capital City's housing market adjusts further to the slowing economy, the average resale price will grow by a more moderate 3.6 per cent, reaching almost the $300,000 mark.

The Downtown Core Along with the Outskirts Remain Popular

Amid the uncertain prospects of a slower economy, the Core remains strong, complemented by healthy and fast-developing neighborhoods in the Queen City's outskirts. This trend will continue as the rapidly retiring baby-boomers and young professional's preferences are better

Figure 2

Resale Market Remains Warm



Source: Ottawa Real Estate Board, Statistics Canada

Figure 3

Source: Ottawa Real Estate Board, CMHC forecast

catered by the convenience of living within closer proximity to the Core. Accordingly, the price for existing homes in the Downtown Core will increase by over 9 per cent in 2008.

Notwithstanding the widespread year-to-date price gains observed, the increasingly popular neighborhoods of Orleans and Barrhaven have stood out in 2008. These regions achieved a better position not only by appreciating faster than the average price wise but also in sales as well. Looking into next year's trends, Ottawa's outskirts will remain strong as these areas are newer and less expensive than the average in the Capital of Canada.

Economic Overview

Strong Public Sector Sustaining Ottawa's Economy

Ottawa's employment growth is expected to finish 2008 on a strong note, increasing by 2.3 per cent over 2007, with an average of 498 thousand people employed. The Capital City's economy will see a more modest pace of growth in labour market performance of 0.8 per cent, reaching an average of just over 500 thousand people employed in 2009.

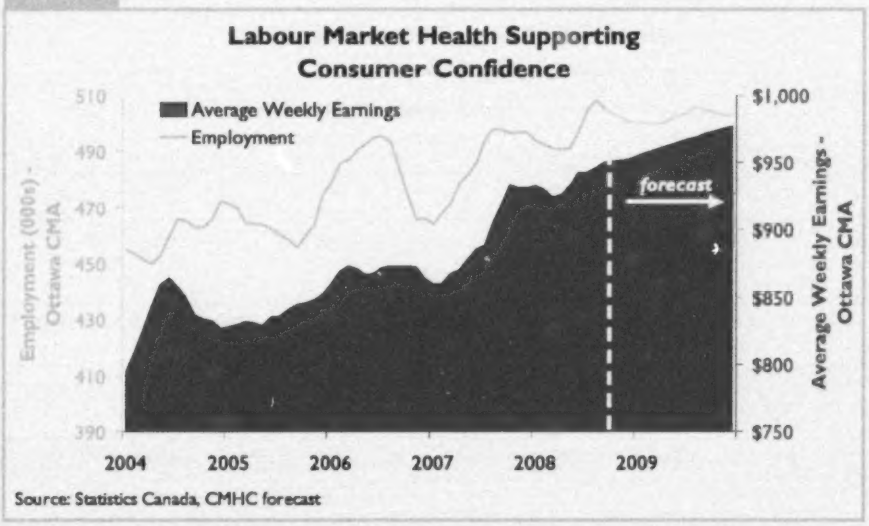
While the Canadian economy decelerates, the Queen City has defied both national and provincial trends. This is mostly due to a large and expanding Public Administration sector, which has more than compensated for the losses in the Manufacturing, Construction and Transportation sectors.

The Service sector, which constitutes almost 50 per cent of total employment, will grow by 4 per cent in 2008. Next year it is anticipated that the rate of growth of this sector will moderate for the whole province, as well as for Ottawa, as a result of a moderation in consumer spending.

Average Weekly Earnings Supporting Housing Demand

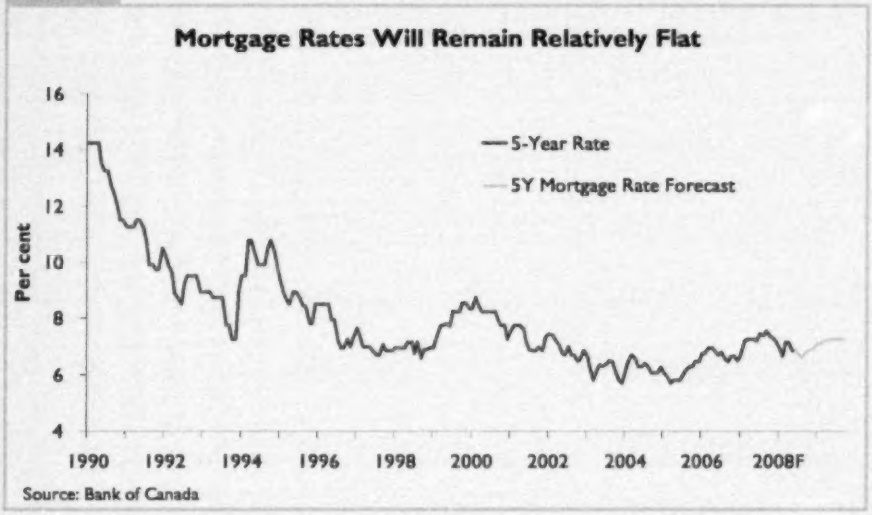
The labour force growth in Ottawa is expected to slow down from a fast rate of 2.1 per cent in 2008 to a more sustainable 1 per cent growth in 2009. As the effects of the decelerating economy start to be felt next year, employment opportunities will grow at a slower rate than that of people looking for a job. Consequently, unemployment rate will stay tight increasing marginally to 5.1 per cent in 2009.

Figure 4



Source: Statistics Canada, CMHC forecast

Figure 5



Average weekly earnings will close this year 5 per cent higher than in 2007, while 2009 will see a more conventional, yet still remarkable, 3 per cent growth in average labour income. This high level of earnings is the backbone of healthy economic activity that is supporting our City's housing market.

Migration Increasing into Ottawa-Gatineau

With a population of almost 900,000 individuals in Ottawa and more than quarter million in Gatineau, the region posted an increase in migration last year with over 8,500 more individuals. As Canada's High Tech Capital, Ottawa's workforce enjoys one of the highest incomes in Canada. This factor, along with its healthy level of employment, will help support increased migration into 2009.

Mortgage Rates

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

Forecast Summary
Ottawa CMA
Fall 2008

	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	13,300	14,003	14,739	14,000	-5.0	13,400	-4.3
MLS® Average Price ($)	248,358	257,481	273,058	288,500	5.7	299,000	3.6
New Home Market							
Starts:							
Single-Detached	2,350	2,480	2,973	2,920	-1.8	2,350	-19.5
Multiples	2,632	3,395	3,533	3,930	11.2	3,650	-7.1
Semi-Detached	300	383	300	230	-23.3	200	-13.0
Row/Townhouse	1,578	1,793	1,954	2,200	12.6	2,050	-6.8
Apartments	754	1,219	1,279	1,500	17.3	1,400	-6.7
Starts - Total	4,982	5,875	6,506	6,850	5.3	6,000	-12.4
New Housing Price Index (% chg) (Ottawa-Gatineau)	4.6	3.1	1.8	1.7	-	1.7	-
Rental Market							
October Vacancy Rate (%)	3.3	2.3	2.3	1.9	-0.4	1.6	-0.3
Two-bedroom Average Rent (October) ($)	920	941	961	980	2.0	1,000	2.0
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-0.15	6.31	-0.44
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-0.02	6.92	-0.13
Annual Employment Level	464,300	483,100	488,200	498,000	2.0	502,000	0.8
Employment Growth (%)	0.6	4.0	1.1	2.0	-	0.8	-
Unemployment rate (%)	6.6	5.1	5.1	5.0	-	5.1	-
Net Migration [1]	4,434	-725	1,000	2,675	-	2,425	-

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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